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Xinyuan Property Management Service (Cayman) Ltd.

鑫苑物業服務集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1895)

(1) UPDATE ON INDEPENDENT INVESTIGATION; AND (2) CONTINUED SUSPENSION OF TRADING

This announcement is made by Xinyuan Property Management Service (Cayman) Ltd. (the “**Company**”) pursuant to the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to the announcements of the Company dated 15 November 2022, 16 November 2022, 18 November 2022, 24 November 2022, 11 January 2023, 15 February 2023, 27 February 2023, 29 March 2023, 18 April 2023, 24 April 2023, 15 May 2023 and 21 June 2023, respectively (the “**Announcements**”), in relation to the Pledges made to secure loan facilities for a subsidiary of Xinyuan Real Estate, the controlling shareholder of the Company, and certain companies which are not part of the Group. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

UPDATE ON INDEPENDENT INVESTIGATION

As stated in the Company’s announcement dated 11 January 2023, the Independent Investigation Committee of the Company has engaged Deloitte Advisory (Hong Kong) Limited as independent advisor (the “**Independent Advisor**”) to conduct: (i) an independent forensic investigation into the unauthorised Pledges (the “**Independent Investigation**”); and (ii) an independent internal control review on the internal controls and procedures of the Company to meet its obligations under the Listing Rules (the “**Internal Control Review**”).

Key Factual Findings of the Independent Investigation

The Independent Investigation conducted by the Independent Advisor and overseen by the Independent Investigation Committee is now substantially complete. This investigation has to date involved review of a very large volume of documents and interviews with numerous persons, and the Company has made full efforts to co-operate with and assist the Independent Advisor and the Independent Investigation Committee.

The Company and its Board wish to provide an update to the Company's shareholders on the key factual findings of the Independent Investigation, as set out below.

1. The Independent Advisor has identified a total of 32 transactions, during the period from 1 October 2019 and 31 December 2022 (the “**Investigation Period**”), in the nature of time deposits, call deposits, structured deposits and investments in financial products (collectively, the “**Time Deposits**”) entered into by Xinyuan Science and Technology and its direct subsidiary, Henan Xinyuan Property Service Co., Ltd. (河南鑫苑物業服務有限公司) (“**Henan Xinyuan Property**”). On the basis of their present findings, 24 of these deposits entered into by Xinyuan Science and Technology were pledged in favour of third parties outside the Company's group.
2. However, save for the Four Deposits (as defined and discussed below), the remaining 28 Time Deposits were historic in nature (having taken place in the period from around October 2019 to August 2022) and have matured, and were not subject to any appropriation and enforcement by the relevant banks. In other words, 28 of the 32 Time Deposits identified were safely returned to the Company and its relevant subsidiaries.
3. Amongst the Time Deposits were the four time deposits which were the subject of the unauthorised Pledges in the aggregate sum of RMB402,380,000 (the “**Four Deposits**”). The funds obtained from the financing activities, which were backed by the Pledges, were ultimately channelled to 鑫苑(中國)置業有限公司 (Xinyuan (China) Real Estate Co., Ltd.) (“**Xinyuan China**”, a subsidiary of Xinyuan Real Estate), and used in its ordinary business activities, namely, for project construction and delivery assurance. The Four Deposits or the corresponding Pledges identified by the Independent Investigation were made without the knowledge or consent of the Board. As the underlying loans were not repaid by the relevant loan maturity dates, the Four Deposits have all been enforced by the relevant banks.

4. A summary of the Four Deposits that are the subject of the unauthorised Pledges is set out below.

No.	Date of Pledge Agreement	Borrower	Amount of the Pledge (RMB)	Maturity Date of the Relevant Loan
1	17 November 2021	Zhengzhou Jiangniu Trading Company Limited (鄭州犇牛貿易有限公司) (“ Zhengzhou Jiangniu ”), a business partner of Xinyuan China	172,800,000	17 November 2022
2	24 November 2021	Jiyuan Senrui Industry Co., Ltd. (濟源市森瑞實業有限公司) (“ Jiyuan Senrui ”), a business partner of Xinyuan China	94,530,000	23 November 2022
3	8 July 2022	Zhengzhou Jiangniu	73,170,000	8 January 2023
4	24 August 2022	Zhengzhou Yusheng Garden Design Company Limited (鄭州豫晟園林設計有限公司) (“ Zhengzhou Yusheng ”), a subsidiary of Xinyuan Real Estate	61,880,000	24 February 2023
Total			402,380,000	

* The English names of the relevant entities are translations of their Chinese names, and are included herein for identification purposes only. They should not be regarded as the official English translations, and in the event of any inconsistency, the Chinese names shall prevail.

5. The Company recognises that the pledging of Time Deposits is not appropriate, and should not have happened. In that connection, the Independent Investigation has identified internal control weaknesses in connection with the Time Deposits, which, together with proposed enhancements to prevent similar issues from arising in the future, are summarised under the sections titled “Assessment of the Pledges” and “Recommendations on Enhanced Internal Controls” below.

While (as noted above) the Independent Investigation is substantially complete, certain specific investigative steps are still being carried out, and the Company will provide any further updates as and when appropriate.

Assessment of the Pledges

To the best knowledge of the Board, as at the date of this announcement and save as disclosed above, the issues identified in the Independent Investigation do not have any material impact on the business operations and development of the Company. The Company's business operations continue as usual in all material respects, notwithstanding the suspension of its trading since 16 November 2022. In addition, as announced by the Company on 18 April 2023, the Company and its Board have been working with its legal advisors to take all necessary and appropriate steps to enforce its rights and recover the outstanding amounts owed with respect to the Pledges, in order to remediate the situation and to safeguard the interests of the Company's shareholders, including commencing arbitration proceedings against Xinyuan China.

Notwithstanding the foregoing, the Board concurs with the views of the Independent Investigation Committee, and acknowledges that, particularly with the benefit of the Independent Investigation and the findings made available to the Company, the Pledges and other Time Deposits have highlighted certain weaknesses in the implementation of the Company's internal control policies/procedures, and demonstrate that certain areas with respect to the authorisation, management and oversight of financial transactions as well as monitoring of the company seal and legal representative chop, should be improved. These issues pertain to the:

- (a) Management of connected transactions;
- (b) Treasury management of funds;
- (c) Management of financial investments;
- (d) Management of credit and loan processes;
- (e) Provision of collateral, security and guarantee;
- (f) Administration of the company seal and legal representative chop; and
- (g) General record-keeping and document management.

The Company is assessing, with its external advisors, whether any of the transactions relating to the Pledges constituted notifiable transactions under Chapter 14 of the Listing Rules and/or connected transactions under Chapter 14A of the Listing Rules, and the relevant Listing Rules implications.

RECOMMENDATIONS ON ENHANCED INTERNAL CONTROLS

In accordance with the Resumption Guidance, in particular Resumption Guidance (c), the Company has been working closely with the Independent Advisor in its Internal Control Review, which is substantially complete. The Company has proactively taken on board, and the Board has resolved to implement, the enhancements recommended by the Independent Advisor, to ensure that its internal controls are appropriately strengthened and that any weaknesses and issues identified are thoroughly addressed.

As at the date of this announcement, the Company has already implemented the following enhanced measures:

- (a) Strengthened internal approval requirements by: (i) requiring a dual-approval process by the Company's executive Director(s) and chief financial officer for all financial arrangements, including deposit transactions, to ensure thorough oversight and that any resulting financial decisions align with the Company's operational, financial and commercial objectives; and (ii) reinforcing the Company's policy against unauthorised financial assistance, to ensure that all financial activities are conducted in compliance with internal guidelines; and
- (b) Tightened enforcement of existing Company chop/seal usage rules by: (i) enhancing internal approval procedures to require detailed documentation supporting any application to use the Company chop/seal; (ii) mandating the use of security cameras to record the usage of the Company chop/seal with regular monitoring of such records; and (iii) heightening scrutiny of any use of chop/seal of the Company's offshore holding companies.

Furthermore, the following enhanced measures are being implemented, and the Company anticipates that all remedial measures will be in full operation by the end of 2023:

- (a) Strengthening and improving internal approval requirements for any deposit transactions to be made;
- (b) Establishing stricter guidelines around the storage, management and use of both the Company and legal representative chops, to ensure that all transactions are properly authorised;
- (c) Improving the Company's financial management system by reinforcing internal guidance on accounting, fund establishment and credit management policies and providing training to employees to ensure proper compliance with the relevant rules for managing the Company's assets, accounts and transactional records;
- (d) Improving the process of identifying, processing and disclosing connected/disclosable transactions to ensure compliance with the relevant rules and regulations, including the Listing Rules;
- (e) Increasing supervision of the Company's financing process, by establishing streamlined tracking and reporting mechanisms for credit/loan usage; and
- (f) Implementing more robust controls and stricter confidentiality measures for accessing the Company's documents and records.

The Company will continue to keep its systems and controls and all matters concerning regulatory compliance under strict review, and implement further enhancements and best practices as appropriate, to ensure that all issues identified are thoroughly addressed. The Company will meanwhile render all necessary efforts to fulfil the Resumption Guidance in a manner satisfactory to the Stock Exchange, with a view to resuming trading in its shares as soon as possible in full compliance with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 16 November 2022 and will remain suspended until further notice. The Company will make further announcement(s) as and when appropriate.

The shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Xinyuan Property Management Service (Cayman) Ltd.
SHEN Yuan-Ching
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 15 August 2023

As at the date of this announcement, the Board comprises Mr. SHEN Yuan-Ching, Mr. FENG Bo and Mr. WANG Yong as executive directors; Mr. TIAN Wenzhi as non-executive director; and Mr. LI Yifan, Mr. LAN Ye, and Mr. LING Chenkai as independent non-executive directors.